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[Off]ice of the Legislative Auditor

State of Montana

Report to the Legislature

April 1992

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1991

Department of Family Services

This report contains recommendations for improvement in the department's operations. Items addressed in the report include:

- Strengthening internal control systems over:
  -Completeness and support of financial records; and
  -Property, plant, and equipment.
- Using non-General Fund money first in accordance with state law.
- Accounting for financial activity in accordance with state law.
- Complying with operating budget requirements.
- Establishing adequate procedures for determining foster care eligibility in accordance with federal regulations.

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April 1992

The Legislative Audit Committee
of the Montana State Legislature:

This report is the result of our financial-compliance audit of the Department of Family Services for the two fiscal years ended June 30, 1991. Included in this report are 22 recommendations for the department to strengthen internal controls, to use non-General Fund moneys first, to account for financial activity in accordance with state law, to comply with operating budget requirements, and to establish adequate procedures for determining foster care eligibility. The department's written response to the audit recommendations is included at the end of the audit report.

We thank the director and his staff for their assistance and cooperation.

Respectfully submitted,

Scott A. Seacat
Legislative Auditor

Office of the Legislative Auditor

Financial-Compliance Audit
For the Two Fiscal Years Ended June 30, 1991

Department of Family Services

Members of the audit staff involved in this audit were Mark C. Barry, Jody Bisom, Peter R. Brustkern, Shawn F. Bubb, Scott Hoversland, and Julie Quist.

List of Tables

Appointed and Administrative Officials

Department of Family Services	Thomas L. Olsen, Director
	Jesse Munro, Deputy Director
Administrators	Gary Walsh, Protective Services Division
	Doug Matthies, Administrative Support Division
	Bill Unger, Superintendent of Mountain View School
	Steve Gibson, Superintendent of Pine Hills School

This listing below serves as a means of summarizing the recommendations contained in the report, the department's response thereto, and a reference to the supporting comments.

Recommendation #1	We recommend the department establish procedures to ensure adequate written support documentation exists for all accounting transactions processed.	6
	Agency Response: Concur. See page 61.	
Recommendation #2	We recommend the department review the daily transaction listing to ensure information recorded on SBAS is authorized, accurate, and complete.	8
	Agency Response: Concur. See page 61.	
Recommendation #3	We recommend the department establish control procedures to ensure appropriate department equipment is tagged for identification and properly recorded on the state's property accounting records.	9
	Agency Response: Concur. See page 61.	
Recommendation #4	We recommend the department adequately segregate duties of personnel responsible for payroll processing, resident account activity, and canteen inventory.	11
	Agency Response: Concur. See page 61.	
Recommendation #5	We recommend the department establish procedures to record expenditures in the proper fund.	14
	Agency Response: Concur. See page 61.	
Recommendation #6	We recommend the department establish procedures to record its financial activity on SBAS in accordance with state accounting laws and policies.	16
	Agency Response: Concur. See page 61.	

Summary of Recommendations

C. Submit an amended Foster Care Title IV-E financial report to adjust $13,095 of expenditures improperly reported on the federal fiscal year 1989-90 report. 38

Agency Response: Concur. See page 65.

Recommendation #20

We recommend the department include language that prohibits use of federal funds for political activity and require compliance with the Civil Rights Act in its contracts with subgrantees. 39

Agency Response: Concur. See page 65.

Recommendation #21

We recommend the department enforce its policy requiring employees to sign the memorandum to indicate the employee had been provided information about the Drug-Free Workplace Act. 39

Agency Response: Concur. See page 66.

Recommendation #22

We recommend the department:

A. Provide training to personnel at all levels to enhance compliance with state and federal laws and policies. 41

Agency Response: Concur. See page 66.

B. Adequately supervise and review department personnel's work to ensure errors are minimized and detected in a timely manner. 41

Agency Response: Concur. See page 66.

C. Improve communications between personnel within the department. 41

Agency Response: Concur. See page 66.

Introduction

We performed a financial-compliance audit of the Department of Family Services for the two fiscal years ended June 30, 1991. The objectives of the audit were to:

1. Recommend improvements in the management and internal controls of the department.
2. Determine if the department implemented prior audit recommendations.
3. Determine if the department complied with applicable state and federal laws and regulations.
4. Determine if the department's financial schedules fairly present the results of operations for the audit period.

This report contains 22 recommendations to the department. These recommendations address areas where the department can improve internal controls, accounting procedures, and compliance with laws and regulations. In accordance with section 5-13-307, MCA, we analyzed and disclosed the cost, if significant, of implementing the recommendations in this report.

Areas of concern deemed not to have a significant effect on the successful operations of the department are not specifically included in this report, but have been discussed with the director and his staff.

Background

The Department of Family Services provides protective services to ensure the health, welfare, and safety of children and adults who are in danger of abuse, neglect or exploitation within the community. It provides for the care, protection, and mental and physical development of youths in need of supervision or delinquent youth who are referred or committed to the department. In addition, it provides supportive services to enable senior citizens to maintain their independence.

Department services are aimed at strengthening family unity and providing an appropriate living environment for individuals. The department operates under four programs: management support, community services, Mountain View School (MVS), and

Pine Hills School (PHS). The number of full-time equivalent employees, by program, is shown in the following table.

Table 1

Full-Time Equivalent Employees

Program	Fiscal Year 1989-90	Fiscal Year 1990-91
Management Support	44	44
Community Services	338	334
Mountain View School	66	66
Pine Hills School	119	119
Total Department	567	563

Source: Office of the Legislative Fiscal Analyst Appropriations Report - 1991 Biennium

The management support program provides administrative and fiscal support for the department, as well as overall policy development and program supervision. The program consists of administration, state audit, state aging, and training functions.

The community services program provides a variety of social services to children, adults, and senior citizens. Services to children include foster care, protective day care, adoption referral and counseling, and coordination of youth court and school programs to reduce instances of delinquency. The after-care program provides supervision for adjudicated youth in need of supervision or for juvenile delinquents. The youth evaluation program provides 45 day evaluations of youth aged 10-19 who have been referred by the courts. Services to adults include spouse abuse counseling, services to unmarried parents, health and nutrition programs, and work incentive programs. Services to senior citizens include congregate meals, transportation, funding for senior centers, homemaker services, and legal advocacy. The program also includes administration of federal supplemental security income payments to eligible recipients.

MVS and PHS programs provide services for female and male youths between the age of 10 and 19 years who have demonstrated a need for intensive correctional attendance. The schools

care for, train, educate, and rehabilitate youths in need of these services. The primary mission is to address these needs in the most effective and expeditious manner in an effort to return the youth to a noninstitutional environment.

Prior Audit Recommendations

Prior Audit Recommendations

Our office performed the department's financial-compliance audit for the two fiscal years ended June 30, 1989. The report contained 17 recommendations still applicable to the department. We determined the department implemented 4, partially implemented 2, and did not implement 11 of the recommendations. In its response to our prior audit, the department concurred with all the recommendations which are not fully implemented.

The recommendations which were partially implemented relate to adequate segregation of duties of personnel responsible for processing payroll and compliance with state laws and policy governing nontreasury cash accounts and deposit requirements which are discussed on pages 9 and 27, respectively.

The recommendations which were not implemented by the department concern transaction support (page 5); completeness of accounting records (page 7); property, plant, and equipment (page 8), spending non-General Fund money first (page 11); accounting records (page 14); compliance with operating budget requirements (page 16); administrative cost recovery (page 23); travel (page 25); youth placement committee (page 29); federal financial reports (page 36) and management controls (page 40).

Internal Controls

The department's responsibilities include establishing and maintaining adequate systems of internal control. The objectives of a system of internal control are to provide management with reasonable, but not absolute, assurance that resource use is consistent with laws, regulations, and policies; resources are safeguarded; and reliable data is obtained, maintained, and disclosed in management reports. Because of inherent limitations in any system of internal control, errors or irregularities may occur and not be detected. However, a good system of internal control reduces the risk of such errors or irregularities.

During our audit, we noted weaknesses in the department's control systems over transaction support; completeness of accounting records; property, plant and equipment; segregation of duties; and management controls. The control weaknesses noted also affect controls over federal programs the department administers. The department receives approximately 90 percent of its federal funding from the U.S. Department of Health and Human Services. The majority of this funding relates to the aging and foster care programs. The remainder of federal funding received by the department is from the U.S. Department of Agriculture, the U.S. Department of Justice, and the U.S. Department of Education. The significant weaknesses we noted and suggestions for strengthening controls are discussed in the following sections.

Transaction Support

In our prior audit we recommended, and the department concurred, that the department establish procedures to ensure adequate written support documentation exists for all accounting transactions processed. The department stated it had implemented procedures to ensure that support documentation would be attached to all transactions. During the current audit, we noted several instances where Statewide Budgeting and Accounting System (SBAS) documents lacked sufficient supporting documentation to adequately explain the basis for transactions recorded on SBAS. These transactions, which totalled approximately $6 million, are described as follows.

- -- The department could not provide subsidized adoption files to support payments made on behalf of two individuals. Since these payments were reimbursed with federal funds, we question $9,668 of costs incurred to the Foster Care Title IV-E grant (CFDA #13.658) for fiscal years 1989-90 and 1990-91.

- -- The department could not provide support to demonstrate meal or mileage charges on seven employee travel vouchers tested, as discussed on page 25, were within applicable state travel laws.

- -- The department did not have support for six journal vouchers totalling $6,042,032. These journal vouchers were correcting revenue accruals and adjusting the funding source of expenditures.

- -- The department could not provide adequate support for reimbursements made to replenish the imprest cash account discussed on page 27.

Department officials could not locate the missing files and could not explain many of the accounting transactions which were not supported. In order to explain other accounting transactions, department personnel spent a substantial amount of time recreating support documentation. If the personnel who prepared these transactions terminated employment at the department, new personnel would not be able to explain the accounting transactions because the documents do not have support attached.

Every SBAS document should be properly and adequately supported in order to demonstrate the reasonableness and accuracy of the transaction. Without sufficient support documentation, the possibility exists that invalid or incorrect transactions are reported on SBAS.

Recommendation #1

We recommend the department establish procedures to ensure adequate written support documentation exlsts for all accounting transactions processed.

Completeness of Accounting Records

The department is responsible for ensuring the completeness and accuracy of its accounting records. During fiscal year 1990-91, the department recorded approximately 76,000 transactions on SBAS. The Department of Administration, Accounting Bureau, provides agencies with a daily report of all transactions recorded on the accounting records. State accounting policy states, ". . . the SBAS daily transaction report should be reconciled with the agency document numbering log. This review should be performed daily and should be documented by a signature and date on the document log." We noted in both the prior audit and the current audit the department does not use the daily report or follow the state policy. As a result, the department does not have a system to ensure all its transactions are input, processed, and recorded correctly on SBAS. In addition, it does not ensure all transactions recorded on SBAS represent financial activity of the department. Since the department allows the Departments of Social and Rehabilitation Services, Commerce, State Lands, and Administration to input documents on its accounting records, the importance of this review is increased. If the department complied with this policy, it would help ensure all transactions were input, processed correctly, and represent financial activity of the department.

Department officials concurred with our prior audit recommendation but did not implement it. According to department personnel, the central office compares the daily transaction report to the document log when time permits. For documents listed on the daily transaction report but not on the document log, department personnel add the document to the log. However, the procedures used by the department only identify documents not listed on the log and do not ensure information contained on the document is authorized, accurate, and complete. In addition, MVS, PHS, and the office on aging were not performing the comparison or review because the central office personnel did not send the daily transaction reports to the personnel responsible for accounting for those activities. Since the department is responsible for all information recorded on its accounting records, it should perform a review to ensure information recorded is authorized, accurate, and complete.

Recommendation #2

We recommend the department review the daily transaction listing to ensure information recorded on SBAS is authorized, accurate, and complete.

Property, Plant and Equipment

The state maintains a Property Accountability Management System (PAMS). This system is used by agencies to manage and account for fixed assets. According to state policy, the department should record equipment with a unit cost of $1,000 or more on PAMS. In addition, state policy requires the department assign each equipment item a property number and a corresponding property tag. Federal regulations require the department to comply with the established state standards when recording equipment purchased with federal funds.

As noted in our previous audit report, the department does not follow state policy nor does it have a system to account for or safeguard its equipment. The department concurred with our recommendation to establish procedures to ensure all equipment is tagged for identification and properly recorded on SBAS. However, during the current audit we noted the department did not implement the recommendation. We noted the following concerns related to management of equipment by the department.

-- The department recorded $142,000 of equipment transferred from the Department of Social and Rehabilitation Services (SRS) on PAMS as one property number. The department recorded $82,162 of equipment purchased for fiscal year 1987-88 on PAMS under one property number and $86,515 of equipment purchased for fiscal year 1988-89 on PAMS under another property number.

-- The department's central office did not record on PAMS approximately $4,082 and $83,719 of equipment purchases during fiscal years 1989-90 and 1990-91, respectively. The department has not recorded deletions for equipment disposed of during the past four fiscal years.

-- The department's central office has not placed property tags on equipment transferred from SRS or purchased during fiscal years 1987-88 through 1990-91.

The department receives a monthly SBAS listing from the Department of Administration, Accounting Bureau, of items coded as an equipment expenditure on SBAS. The department must analyze and decide which items shown on this listing should be recorded on PAMS. The department should process a transaction to record the equipment on PAMS. Department personnel noted they are in the process of gathering equipment listings from regional offices and have plans to properly record items on PAMS and place tags on the items in accordance with state policy. However, this process was not completed as of January 1992. In addition, PHS personnel noted that they attempted to input approximately $8,391 of equipment on PAMS over the past three fiscal years. However, PHS does not receive a copy of the PAMS listing from the central office and; therefore, was not aware the equipment was never processed on PAMS. The department should establish procedures to ensure equipment greater than $1,000 belonging to the state is tagged for identification and properly recorded on the state's accounting records.

Recommendation #3

We recommend the department establish control procedures to ensure appropriate department equipment is tagged for identification and properly recorded on the state's property accounting records.

Segregation of Duties

During our review, we noted inadequate segregation of duties at PHS relating to payroll processing, resident account collections, and canteen inventory. The following instances were noted:

-- The school processed approximately $85,190 and $66,903 in cash receipts during fiscal years 1989-90 and 1990-91, respectively, on behalf of its residents. One employee is responsible for opening the mail, receipting the money,

initially compiling the deposit, and reconciling the bank statement. This employee also began recording the resident account activity in fiscal year 1991-92. This combination of duties places the employee in a position to perpetrate and conceal errors or irregularities in the normal course of the employee's duties. We noted similar weaknesses in internal controls at MVS during the prior audit. Due to those weaknesses in internal control, we found at least $8,300 was misappropriated from MVS.

-- The school's budgeted personal service expenditures were approximately $3 million each year in fiscal years 1989-90 and 1990-91. One employee is responsible for preparing payroll changes, preparing the prepayroll, and receiving the payroll warrants prior to distribution. Even though this employee does not approve the payroll changes and prepayroll, the employee receives these documents back after they are approved and prior to processing. As a result, the potential exists for a preparer to alter the prepayroll after approval and to control warrants containing altered or fictitious payroll information.

-- The school purchased $19,938 and $15,597 in fiscal years 1989-90 and 1990-91, respectively, for goods for resale at the canteen. One employee is responsible for purchasing the merchandise, recording inventory receipts and sales on the inventory system, dispensing the inventory to residents, taking the physical count of the inventory, and making adjustments to the inventory records. This combination of duties places the employee in a position to perpetrate and conceal errors or irregularities in the normal course of the employee's duties.

State policy requires that no one person perform incompatible functions. The policy further recommends the responsibilities of recordkeeping, authorization, operations and custodianship be separated. According to department personnel, there is limited staff available to adequately segregate duties. However, we believe duties could be adequately segregated by allocating duties differently between existing staff.

Recommendation #4

We recommend the department adequately segregate duties of personnel responsible for payroll processing, resident account activity, and canteen inventory.

State Compliance

We reviewed selected state laws and regulations pertaining to the department. Federal regulations require the department expend federal funds in compliance with state laws. If the department does not comply with state laws, it could affect the allowability of expenditures for federal reimbursement. The accounting records, annual and holiday leave calculation, retirement system, administrative cost recovery, and travel sections discussed below also affect the department's federal funds as noted on page 5. The following sections discuss state compliance issues we noted during the audit.

Non-General Fund Money First

The department receives moneys from state, federal, and county governments to fund its programs. Many of the programs it administers are funded by a combination of these sources. At the beginning of each fiscal year, the department establishes a percentage of funding by source on SBAS. When expenditures are recorded on SBAS the designated sources are charged.

In the previous audit, we noted a need for the department to establish cash management procedures to allow for proper recording of initial expenditures and alleviate the need for department personnel to record expenditures in the wrong fund. The department concurred with our recommendation; however, the recommendation was not implemented. Section 17-2-108, MCA, states the department, "shall apply expenditures against non-General Fund money whenever possible before using General Fund appropriations." During testing we noted the following instances in which the department used state General Funds

to temporarily fund expenditures which were the responsibility of the federal government or state special revenue funds.

-- The department receives the majority of its U.S. Department of Health and Human Services funds using a letter of credit. Under the letter of credit agreement, the department may draw funds as the grant costs are incurred. We tested ten fiscal year 1990-91 draws and noted six instances, totalling approximately $3.5 million, in which the draws were made quarterly based on expenditures incurred for the quarter ended. The procedures used by the department result in the use of General Fund money when federal moneys are available. Using the short-term investment pool yield, the state lost as much as $51,774 in interest during fiscal year 1990-91. Department personnel stated the draws were done in this manner since it was easier to draw funds based on actual expenditures.

-- The department allocates administrative costs to the various funding sources based on a random moment time study (RMTS). This study is performed to ensure the programs in which department personnel spend their time are charged for services provided. The results of the RMTS are available to the department quarterly. We noted the department does not use the results of the quarterly RMTS to transfer expenditures to the appropriate funding source during the fiscal year. Department officials stated the final cost allocation is completed after fiscal year-end, since final numbers are available at that time. The department recorded the fiscal year 1989-90 final funding adjustment on SBAS in June of 1991. As a result, expenditures totalling $130,963 were incorrectly recorded in the General Fund at fiscal year-end 1989-90. Also the department did not draw federal funds until the RMTS was complete, which resulted in lost interest of $1,691. The department had not recorded the final funding adjustment for fiscal year 1990-91 on the state's accounting records as of January 1992.

-- The department receives money monthly for the school foods program, interest income earned on state owned land, and reimbursement for federal boarders. We noted PHS expenditures totalling $446,462 and $367,912 for these items in fiscal years 1989-90 and 1990-91, respectively, were initially recorded in the General Fund and transferred to the Special Revenue Fund at fiscal year-end. Since the funding source was available throughout the fiscal year, the department should transfer the expenditures upon receipt

of the money. Department personnel stated the transfers were not made until year-end due to time constraints.

-- The department receives $271,396 each fiscal year from the federal government for administrative costs of the Child Welfare Services Program. The department receives a portion of the federal funds quarterly; however, it initially records the expenditures to the General Fund during the fiscal year. At fiscal year-end 1989-90, the department transferred expenditures to the federal funding source. We reviewed the fiscal year 1990-91 accounting records and determined the department did not transfer the expenditures from the General Fund to the Special Revenue Fund. Department personnel stated a fixed amount is received each fiscal year from the federal government and it is easier to transfer expenditures to the proper funding source at fiscal year-end.

-- The department records moneys it receives from court fines and forfeitures for the Domestic Violence Program in the Special Revenue Fund. During fiscal years 1989-90 and 1990-91, the department initially recorded $70,000 and $35,000, respectively, of Domestic Violence Program expenditures in the General Fund. At each fiscal year-end, these expenditures were transferred to the Special Revenue Fund. Court fines and forfeitures are received on a monthly basis; therefore, related expenditures should be recorded to the appropriate funding source at that time.

As a result of using General Fund moneys to temporarily fund expenditures, which are not the responsibility of the General Fund, the General Fund loses interest since it supports non-General Fund activities longer than necessary; the department has unrecorded inter-entity loans; and the department incurs additional staff time tracking and transferring the expenditure to the appropriate account.

In addition, department personnel indicated some of the instances noted above resulted from management not informing department personnel of available funding sources for programs and misunderstanding of funding procedures used by the department. In order to allow for proper initial recording of expenditures, the department should establish procedures to:

1. Draw federal funds more frequently as grant costs are incurred.

2. Transfer expenditures to the proper funding source in a timely manner or as moneys are available.

3. Ensure the proper funding source is charged initially throughout the fiscal year to minimize transferring expenditures at the fiscal year-end.

4. Obtain and use inter-entity loans when a delay in reimbursement occurs.

Recommendation #5

We recommend the department establish procedures to record expenditures in the proper fund.

Accounting Records

Financial information of the department is used by department officials, budget analysts, and the legislature to manage and establish funding levels for the department. Section 17-1-102(5), MCA, provides "all state agencies . . . shall input all necessary transactions to the accounting system . . . before the accounts are closed at the end of the fiscal year in order to present the receipt, use, and disposition of all money and property for which the agency is accountable in accordance with generally accepted accounting principles (GAAP)." The Department of Administration, Accounting Bureau, establishes state accounting policies for agencies to follow to ensure information recorded on the state's accounting records (SBAS) complies with GAAP.

During the previous audit, we noted instances where the department did not record financial activity on SBAS in accordance with state law and state accounting policies. The department concurred with our recommendation and addressed some of the specific instances noted. However, it did not address the overall concern of establishing procedures to ensure proper recording of transactions on the state's accounting records. During this audit, we noted the following instances where the department did not comply with state law and accounting policies.

-- At fiscal year-end 1990-91, the department received approximately $1.8 million of federal funds and recorded the funds as deferred revenue. The expenditures, which generated the federal reimbursement, were incurred prior to fiscal year-end. As a result, these moneys were earned and the department should have recognized them as revenue. Revenue was understated and deferred revenue was overstated at fiscal year-end 1990-91 by approximately $1.8 million. We also issued a qualified opinion on the department's financial schedule shown on page 48.

-- Prior to fiscal year-end 1989-90 and 1990-91, the department did not accrue expenditures for billings it received from providers of aging services. The department should have accrued these expenditures since the expenditures were incurred prior to fiscal year-end.

-- The department did not accrue revenue for Chapter 1 moneys earned by fiscal year-end 1990-91. As a result, accounts receivable and revenue were understated by $5,993 in fiscal year 1990-91.

-- At fiscal year-end 1989-90, the department did not comply with fiscal year-end instructions on use of special cutoff control accounts. As a result of the miscoding, the cutoff accounts were misstated by approximately $3.6 million.

-- During fiscal year 1989-90, the department charged $8,537 of state expenditures to a federally funded account rather than a state funded account.

-- The department recorded $9,381 of services for July 1989 as fiscal year 1988-89 activity rather than fiscal year 1989-90 activity. During fiscal year 1989-90, the department charged $4,712 of fiscal year 1987-88 expenditures to fiscal year 1988-89. The department should charge expenditures to the fiscal year that benefits from the services.

-- The department received a federal grant of approximately $6,000 and $5,000 in fiscal years 1989-90 and 1990-91, respectively. These funds are recorded in a federal accounting entity upon receipt; however, the department abated these funds to a state accounting entity immediately after receipt. The department should record federal moneys it receives in a federal accounting entity.

Without all financial activity properly recorded on SBAS, the quality, consistency, and comparability of the resulting financial

information is affected. Many of these errors resulted from employees' unfamiliarity with state accounting policies, failure to follow state policies, inadequate review of accounting documents by authorized individuals, lack of communication between employees within the department and human error. The department should establish procedures to ensure proper recording of transactions on the state's accounting records. Procedures should include, but are not limited to:

1. Recognizing revenue when earned.

2. Recording expenditure accruals when expenditures are incurred but not paid by fiscal year-end.

3. Coding expenditures to the proper category and fiscal year.

4. Initially recording expenditures to the correct funding source.

5. Communicating policies and procedures to employees responsible for completing the work.

6. Providing training to its personnel.

7. Adequately supervising and reviewing the work of department personnel to ensure errors are minimized and detected in a timely manner.

Recommendation #6

We recommend the department establish procedures to record its financial activity on SBAS in accordance with state accounting laws and policies.

Compliance with Operating Budget Requirements

According to House Bill 100 (HB 100), Laws of 1989, "Expenditures by a state agency must be made in substantial compliance with an operating budget approved by an approving authority." For executive branch agencies, the Office of Budget and Program Planning is the approving authority. HB 100 defines substantial compliance as no expenditure category in an

approved operating budget being overspent by more than 5 percent. HB 100 also states each operating budget must include expenditures for each program detailed at least by the categories of personal services, operating expenses, equipment, benefits and claims, grants, transfers, and local assistance. The department is required to record this operating budget or plan and any approved changes on SBAS.

During fiscal year 1989-90, the department did not record its approved operating budget, detailed by category, on SBAS for three of its four programs. The budget authority for management support ($ 2,228,527), community services ($28,115,259), and PHS ($3,767,119) programs were not allocated to the required categories.

In March of 1991, the department allocated a portion of its fiscal year 1990-91 operating budget to the various categories after we brought the issue to the department's attention. However, the department did not allocate $3,472,868 of subsequent operating plan amendments.

We also noted the community services, MVS, and PHS expenditures exceeded the approved operating budget by more than 5 percent for one of the established categories during fiscal years 1989-90 and 1990-91. Total expenditures did not exceed appropriation authority in either of the two fiscal years.

HB 100 further requires that no funds appropriated for personnal services may be expended under any other category. We noted the PHS program used $24,942 of its personal services category budget to pay for operating expense category expenditures in fiscal year 1990-91. The effects of the above errors are outlined in the table below.

Table 2

Schedule of Budget vs. Actual Expenditures
for the Two Fiscal Years 1989-90 and 1990-91
Community Services, MVS, and PHS Programs

	Approved Operating Budget	Actual Expenditures	(Over) Under Expended	Percent of Expenditures in Excess of Budget
Fiscal Year 1989-90:				
MVS				
Personal Services	$ 1,694,245	$ 1,579,210	$115,035	
Operating Expenses	325,719	314,466	11,253	
Equipment	0	6,040	(6,040)	100%
Total	$ 2,019,964	$ 1,899,716	$120,248	
PHS				
Personal Services	$ 3,039,319	$ 2,904,239	$135,080	
Operating Expenses	712,931	705,496	7,435	
Equipment	14,869	15,741	(872)	6%
Total	$ 3,767,119	$ 3,625,476	$141,643	
Fiscal Year 1990-91:				
Community Services				
Personal Services	$ 8,915,087	$ 8,611,478	$303,609	
Operating Expenses	1,199,657	1,313,058	(113,401)	9.5%
Equipment	52,765	59,060	(6,295)	12%
Grants	5,690,775	5,623,949	66,826	
Benefits and Claims	14,485,337	14,190,351	294,986	
Total	$30,343,621	$29,797,896	$545,725	
MVS				
Personal Services	$ 1,745,212	$ 1,699,426	$ 45,786	
Operating Expenses	331,323	328,050	3,273	
Equipment	14,576	15,442	(866)	6%
Total	$ 2,091,111	$ 2,042,918	$ 48,193	
PHS				
Personal Services	$ 3,148,752	$ 3,051,985	$ 96,767	
Operating Expenses	704,133	731,667	(27,534)	4%*
Equipment	10,215	7,623	2,592	
Total	$ 3,863,100	$ 3,791,275	$ 71,825	

*$24,942 of personal services authority was used to pay operating expenses.

Source: Compiled by the Office of the Legislative Auditor from Department of Family Service records.

By not recording the operating budgets on SBAS, exceeding the approved operating budgets, and using its personal services budget to fund operating expenditures, the department did not comply with section 7 of HB 100. In the previous audit report, we recommended the department establish procedures to ensure expenditures do not exceed the approved operating budgets. The department concurred with our recommendation; however, during the current audit we again noted problems in this area. The need for the department to establish adequate procedures in order to comply with state law still exists.

Department officials noted the fiscal year 1989-90 operating budget was not allocated on SBAS because they were not aware it was required to be allocated by category. For fiscal year 1990-91, department officials noted that the amounts which were not allocated were operating budget amendments. Department officials further noted they monitor authority based on total appropriation. By gaining a thorough understanding of appropriation laws and properly monitoring its budget, the department could avoid exceeding approved operating budgets and using personal service authority to fund nonpersonal service expenditures.

Recommendation #7

We recommend the department:

A. Record approved operating budgets on the state's accounting records in accordance with state law.

B. Monitor program expenditure activity and submit operating budget amendments to ensure compliance with appropriation laws.

Compensatory Leave Time

The department incurred costs associated with the reconstruction of the MVS resident account system after a misappropriation of funds. As part of the costs, an employee earned compensatory time while reconstructing the resident account system. The employee subsequently transferred to another state agency, which accepted the maximum transfer of compensatory time allowed by state policy. For the excess compensatory time earned, the employee requested payment of $1,330 from the department. The department initially denied the request because it believed the compensation was not allowed under state policy. The employee filed a grievance against the department indicating the work performed was nonexempt and thus subject to overtime under the Fair Labor Standards Act (FLSA). As of February 1992, the grievance against the department has not been resolved.

State policy states, "compensatory time may be accumulated to a maximum of 120 hours." Section 2.21.1812(11), ARM, states, "there shall be no lump sum cash compensation for accrued exempt compensatory time upon transfer or at the date of termination." During the audit, we noted the department intended to pay $1,330 for compensatory time earned in excess of 120 hours for the employee discussed above. According to department officials, they believe state policy violates the FLSA. If the department believes the state policy conflicts with the FLSA, it should work with the Department of Administration to appropriately modify state policy.

In addition, the department requested the district court to make the $1,330 payment directly to the employee for the hours over the maximum allowed by state policy. According to department officials, the request was a result of the court order which required the individual involved in the misappropriation of funds to reimburse costs related to the event. Any money received by the court for the reconstruction is owed to the department and not the individual who was an employee of the department. Therefore, the department should record revenue for any money received from the district court. If the department believes the employee should be compensated for the time,

it should record the payroll expenditure on the state's accounting records and pay the employee for the time worked.

Recommendation #8

We recommend the department:

A. Comply with state policy concerning payment for compensatory time.

B. Record on the state's accounting records the appropriate revenue and expenditures, if any, related to the reconstruction of the MVS resident account system.

Annual and Holiday Leave Calculation

In 1987 the Montana Supreme Court held that teachers at MVS are state employees and as such are entitled to leave benefits provided other state employees. The Department of Administration promulgated rules under section 2-18-604, MCA, for employee leave benefits provided state employees. ARMs section 2.21.221(3), states "Leave credits may not be advanced nor may leave be taken retroactively." In addition, state policy requires the department to record the cost of employee's leave when the employee uses the annual leave.

During the 1990-91 school year, MVS and PHS employed 11 and 15 teachers, respectively. We noted the department increases the teachers' gross pay by including a value equivalent to the number of days of annual leave and holidays a teacher is allowed in calculating the hourly wage for each teacher. The method used by the department does not comply with state policy because the teachers are paid for annual leave or holidays prior to earning or taking this time.

Department officials noted that the teacher's union agreements require it to calculate the hourly wage rate in the manner used by the department. However, the department cannot modify state law through collective bargaining. The department should

work with the Department of Administration to ensure that annual and holiday leave for teachers is credited, paid and recorded in accordance with state law and policy. According to department officials, the fiscal years 1991-92 and 1992-93 union agreements allow the department to comply with state policy.

Recommendation #9

We recommend the department ensure teachers are paid for holidays and annual leave in compliance with state law and policy.

Retirement System

Section 19-4-302(1)(c)&(2)(a), MCA, states that any person in an instructional services capacity at a public institution of the state of Montana must be an active member of the Teachers' Retirement System (TRS). In order to be eligible for active membership, the above person must be employed in the capacity prescribed for his eligibility for at least 30 days in any fiscal year. During our testing, we noted the department has separate teacher contracts for the regular academic and summer school years. MVS and PHS had 14 summer school teachers in fiscal year 1989-90 and 11 in fiscal year 1990-91. We noted the department did not contribute or withhold employee contributions for summer school teachers at MVS and PHS.

Department personnel stated MVS summer school teachers are temporary employees. However, we noted the majority of these teachers are also under contract with the department for the regular academic year. In addition, department personnel stated PHS summer school teachers are already enrolled in TRS under the academic year contracts. However, we noted the department did not make contributions for the salaries earned on the summer school contracts.

As a result, TRS did not receive approximately $2,930 and $3,172 in contributions for fiscal years 1989-90 and 1990-91,

respectively. Of this amount, the department's share to the retirement system would be $1,507 and $1,631 for fiscal years 1989-90 and 1990-91, respectively. The department should work with the summer school teachers and TRS to resolve the unpaid contributions to the retirement system.

Recommendation #10

We recommend the department:

A. Ensure contributions to the Teachers' Retirement System are made in compliance with state law and policy.

B. Work with the summer school teachers and the Teachers' Retirement System to resolve unpaid contributions.

Administrative Cost Recovery

Federal regulations allow state agencies reimbursement for indirect costs necessary for the administration of federal grants. Section 17-3-111, MCA, requires state agencies to recover indirect costs of administering federal assistance programs to the fullest extent possible. Recovery of indirect costs reduces the amount of state money required to support federal programs. During the audit, we noted the following instances where the department did not use an approved indirect cost rate or did not recover indirect costs to the fullest extent possible.

The department did not obtain federal authorization for the indirect cost rate it used during fiscal year 1990-91. In order for the department to claim indirect costs as an allowable charge, Office of Management and Budget (OMB) Circular A-87 requires an indirect cost plan. The circular further states the federal government has the responsibility for the negotiation, approval, and audit of the indirect cost proposal. According to department officials, they received verbal authorization from the U.S. Department of Health and Human Services to use an

estimated indirect cost rate. Since the department did not receive written federal authorization for the fiscal year 1990-91 indirect cost rate, we are required to question $438,267 of charges to a variety of U.S. Department of Health and Human Services programs, of which major funding is for the aging (CFDA #13.633, #13.635, and #13.668) and foster care (CFDA #13.645, #13.652, #13.658, and #13.674) programs. The ultimate disposition of this finding will be resolved by the federal grantor agency.

The department's central office, MVS and PHS, each negotiate a separate indirect cost rate to recover indirect costs. The department's central office calculates its indirect cost rate by determining the percentage of total indirect costs to personal service expenditures. We noted the department's central office excluded MVS and PHS expenditures in its total indirect cost base. However, the department included MVS and PHS personal service expenditures in its personal service base. Since MVS and PHS did not include $15,647 of fiscal year 1989-90 and $18,215 of fiscal year 1990-91 central office indirect costs when negotiating indirect cost rates, MVS and PHS did not recover indirect costs to the fullest extent possible, in accordance with state law.

The Aging Coordinator's salary is funded in full by the General Fund under the Governor's Office budget. This position provides guidance for the aging program staff. The department provides staff and administers the aging program. In fiscal years 1989-90 and 1990-91, the aging program was approximately 86 percent funded by federal funds. We noted neither the Governor's Office nor the department included the Aging Coordinator's salary in its indirect cost calculation. According to department officials, the funding for supervisory duties of the Aging Coordinator was established under the Governor's Office and; therefore, they did not include the coordinator's salary in the department's indirect cost calculation. Governor's Office personnel stated they do not include the coordinator's salary in their indirect cost calculation since this position does not provide services to its federal programs.

In the previous audit report, we recommended the department recover indirect costs to the fullest extent possible in accordance

with state law. The department concurred with our recommendation, but did not implement the recommendation. In the future, the department should:

1. Obtain authorization for indirect cost rates applied to federal programs.

2. Require MVS and PHS to include central office indirect costs when negotiating indirect cost rates, or include all MVS and PHS indirect costs in its indirect cost base and negotiate one indirect cost rate for the department as a whole.

3. Work with the Governor's Office to ensure the state recovers a portion of the Aging Coordinator's salary from the federal government in accordance with state law.

Recommendation #11

We recommend the department:

A. Obtain written federal authorization for indirect cost rates applied to federal programs.

B. Recover indirect costs to the fullest extent possible in accordance with state law.

Travel

The department processes a high volume of travel vouchers submitted by department personnel. During each of fiscal years 1989-90 and 1990-91, the department recorded approximately $630,000 of travel expenses on the accounting records.

In testing travel vouchers at the central office, we noted four out of sixteen tested did not comply with state law or policy. In addition, we perused the fiscal years 1989-90 and 1990-91 travel voucher files at PHS and noted fourteen instances of noncompliance. For example, five travel expense vouchers claiming $117 for meals did not document the time period the employees were in travel status. Without documenting the departure and return times, the department cannot demonstrate the employees were in

travel status for meals claimed. We noted the department reimbursed an employee 26 cents per mile rather than the allowed rate of 23 cents per mile for personal vehicle use. In order to claim the 26 cents per mile, the employee must obtain an authorization form from the state Motor Pool. We noted two employees who were reimbursed $75 for travel expenses incurred on weekends when the employees' timesheets did not reflect hours worked for the related time period. We noted two instances where the department paid for meals when the employees were not in travel status. We further noted nine instances in which employee travel expense vouchers totalling $697 were not approved by the employee's supervisor.

Sections 2-18-501, 2-18-502, and 2-18-503, MCA, provide specific meal and lodging reimbursement rates, specify time periods an employee must be in a travel status to be eligible for meal reimbursement, and establish mileage rates which may be claimed. In addition, state policy requires the travel expense voucher be reviewed and approved by the employee's immediate supervisor.

Department personnel stated human error in reviewing the travel expense vouchers was the cause for many of the instances noted above. Additionally, department personnel stated they were not aware of requirements to be met in order to receive the higher personal vehicle reimbursement rate. Department officials stated they combined the travel expense voucher on the timesheet beginning in fiscal year 1991-92 to help reduce the concern of employees claiming travel expenses when the timesheets do not reflect hours worked for the related time period.

As noted in our prior audit report, the department should establish adequate policies and procedures to ensure travel rates paid to employees are in accordance with state law. In addition, the department needs to ensure supervisors responsible for approving travel vouchers have done so prior to reimbursing employees. The supervisor's signature on these claims verifies that the employee traveled and should be reimbursed.

Recommendation #12

We recommend the department establish policies and procedures to ensure travel reimbursements comply with state laws.

Nontreasury Cash Accounts

Section 17-6-105, MCA, requires state agencies to deposit all moneys with the state treasurer or with a depository approved by the state treasurer. State policy requires all moneys received be deposited in the state treasury unless formal written permission is obtained from the Department of Administration, Accounting Bureau. If a need exists for an agency to have cash readily available to conduct day-to-day operations, the Accounting Bureau has established different methods for providing these funds. One method is an imprest cash account, which consists of moneys withdrawn from a treasury account to be used for small cash purchases. For fiscal years 1989-90 and 1990-91, the department obtained authorization for imprest cash accounts totalling $875 and $1,025, respectively. We noted concerns with the department's use of four imprest cash accounts established for its youth evaluation program and PHS.

First, the department deposited a $300 imprest cash account in a savings account at a local credit union. According to bank records, the department withdrew and deposited $1,059 and $902, respectively, during the audit period. The account has also earned $82 of interest since the account was opened. The balance of the account at June 30, 1991 was $279; however, during fiscal year-end the account was reimbursed for $256 of receipts which were outstanding at June 30, 1991. The account is used to pay allowances for youths, miscellaneous minor purchases, and bills for recreational activities such as swimming, movie rental, or camping for youths. In most instances, the only support provided to the central office with the request for replenishment was a withdrawal slip from the credit union.

Since the credit union is not a designated state treasury account the department did not comply with section 17-6-105, MCA. The department also exceeded its authorized $300 balance at fiscal year-end by $235. Furthermore, the department did not comply with section 17-6-202, MCA, which requires any income earned on the investment of excess treasury cash be credited to the General Fund. Finally, the department did not comply with state policy which requires the amount requested to replenish the imprest cash account be supported. According to department personnel, they replenished the account based on a letter from the regional administrative officer authorizing payment. Department personnel also stated when they started with the department, there were several cash accounts and at the regional administrative officer's request these funds were combined and deposited at the credit union. They were not aware of state policies governing nontreasury cash accounts.

Second, the youth evaluation home is also authorized a $25 imprest cash account to make small cash purchases for the home. Department personnel noted this account may exceed the $25 authorized limit at times because it is replenished with cash left over from withdrawals from the savings account which are not entirely spent for the intended purpose.

Third, PHS established a change fund for basketball game concessions by withholding cash from its deposits. By not depositing all collections, PHS is maintaining an unauthorized change fund. State policy requires agencies to deposit intact all money received in connection with the conduct of state business. State policy also requires formal written permission for moneys held outside the treasury. Department officials stated they were not aware this cash account existed.

Fourth, PHS also has an unauthorized $40 change fund which is used to make disbursements for boys who work off campus and to cash checks on an emergency basis. PHS employees reconcile and replenish this account on a weekly basis. Department officials noted that the fund has existed for a long time and was not questioned.

In the previous audit of the department, we noted the department did not comply with state law and policies governing nontreasury cash accounts and deposit requirements. The department concurred with our recommendation but only implemented procedures at the specific location noted. State law and policies were established to decrease the risk of loss or misuse of moneys held outside the treasury. The department should perform a review to determine what cash is held outside the treasury at its field offices and ensure the accounts were properly authorized and are properly maintained.

Recommendation #13

We recommend the department:

A. Establish procedures to ensure nontreasury cash accounts are authorized and used in accordance with state law and policy.

B. Ensure deposits are made intact in accordance with state policy.

C. Revert interest earned on the savings account to the General Fund in accordance with state law.

Youth Placement Committee

Section 41-5-525, MCA, requires the department to establish youth placement committees (YPC) for the purpose of recommending appropriate placement of youths. Sections 41-5-526(4) and 41-5-527(1&2), MCA, state the YPC shall recommend in writing to the department an appropriate placement for the youth. Department policy further states that any YPC recommendation shall be signed by a majority of its members. Section 41-5-523(2), MCA, states the department shall determine the appropriate placement, supervision, and rehabilitation program for youth after considering the recommendation of the YPC.

In our prior audit report, we recommended the department ensure youth placements were properly supported in accordance

with state law. The department concurred with our recommendation. During the current audit we visited two regional offices not visited during the previous audit to ensure compliance with the laws and policies. We reviewed twenty files, ten at each office, and noted the following instances at one of the regional offices where the department did not comply with state law or its policy.

-- In eight of the files reviewed, the YPC report submitted to the department recommending a placement of the youth was signed by less than a majority of the committee members. One report contained no signatures.

-- In six of the files reviewed, the regional administrator for the department had not signed the recommendation of the YPC, to document acceptance of the recommendation. One of the files contained a stamped version of the regional administrator's signature.

According to department personnel, the eight YPC reports submitted to the department only contained two signatures due to the large number of youths processed through the office and the fact it is difficult to arrange committee meetings. Department personnel further stated if the case is a routine recommendation they do not believe there is a need for a meeting. Therefore, a representative of the department and the youth probation officer sign the YPC report. In addition, department personnel noted the signature stamp was used with prior approval of the regional administrator in his absence.

Recommendation #14

We recommend the department ensure youth placements are properly supported in accordance with state law.

Subsidized Adoptions

The department receives state and federal funding for subsidy payments which encourage and promote the adoption of children who are hard to place. "Hard-to-place child" means a minor who is a dependent of a public or voluntary licensed child-placing agency, legally free for adoption, and is not likely to be adopted because of physical or mental disease or disability; recognized high risk of physical or mental disease or disability; or sibling relationship to another child who is eligible for adoption.

Section 52-2-510, MCA, requires "when subsidies are for more than one year, the adoptive parents shall present an annual sworn certificate that the adopted child remains under their care and the condition that caused the child to be certified continues to exist." Furthermore, department policy requires a subsidized adoption agreement be renewed annually by the adoptive parent(s) and the department.

We reviewed documentation of six subsidized adoptions and noted three instances in which the last annual subsidized adoption agreement renewal completed was during fiscal year 1988-89. Department personnel noted that the regional offices are responsible for ensuring the annual renewal is completed and the regional offices have not enforced compliance with state law and department policy.

<u>**Recommendation #15**</u>

We recommend the department comply with state law and department policy regarding annual subsidized adoption agreements.

Compliance with Federal Regulations

As noted on page 5, the department receives funding from various federal departments with the majority of its funding coming from the U.S. Department of Health and Human Services. The department recorded on SBAS $10,156,522 and $11,118,306 of federal expenditures during fiscal years 1989-90 and 1990-91, respectively. During the audit we noted the following areas where the department could improve procedures to comply with federal regulations.

Procedures for Determining Title IV-E Foster Care Eligibility

The department administers the federal Title IV-E foster care program (CFDA #13.658). The objective of this program is to provide assistance on behalf of eligible children who need care away from their families and who are in the placement and care of the department. The program is funded through a combination of federal, state, and county moneys. Federal expenditures for the foster care program were $4,185,998 and $4,833,932 in fiscal years 1989-90 and 1990-91, respectively.

In order to be eligible for federal Title IV-E foster care reimbursements, federal regulations state recipients must have been removed from the home by means of a judicial determination or voluntary placement agreement; the child must be AFDC eligible; and the provider must be licensed by the proper licensing authority. In addition, in order to receive adoption assistance payments, the child must be Title IV-E foster care, AFDC, or Supplemental Security Income eligible; and must be a special needs child whom the state has made efforts to have adopted without a subsidy. Federal regulations also state, "For recipients of AFDC, all factors of eligibility will be redetermined at least every 6 months . . ."

We tested a sample of 59 foster care payments during fiscal years 1989-90 and 1990-91 to determine if payments were made on behalf of eligible clients. We noted the following instances where the department made payments on behalf of ineligible clients.

-- In three instances payments were made on behalf of clients who did not meet the eligibility requirements for the foster

care program. As a result, we question $1,678 of costs incurred for the period tested.

-- In one instance, the eligibility redetermination was back dated to include a time frame in which coverage lapsed. Therefore, we question $625 of costs incurred for the period tested.

-- In 14 instances, the department could not provide a redetermination of eligibility for payments made on behalf of foster care clients. As a result, we question $3,018 of costs incurred for the period tested.

-- In one instance, the department could not provide a final subsidized adoption agreement nor provide documentation to ensure the client had met IV-E foster care eligibility requirements. Therefore, we question $179 of costs incurred for the period tested.

-- In one instance, the provider was not licensed for the period in which payment of $305 was made. Therefore, we question the allowability of these charges.

According to department procedures, the initial determination and redetermination of foster care eligibility is made at the field offices. The central office reviews and approves invoices submitted by foster care providers prior to payment. However, we noted the department has not established procedures to ensure this authorization is based on current eligibility information. Department officials stated the central office relies on field staff to ensure the forms are current and accurate. Since the central office has not delegated approval authority to the field offices, the procedures used by the department increase the probability of payments made on behalf of ineligible clients.

Recommendation #16

We recommend the department establish adequate procedures to ensure foster care payments are made on behalf of eligible clients in accordance with federal regulations.

Subrecipient Monitoring

The department subgrants federal financial assistance moneys it receives from the U.S. Department of Agriculture and the U.S. Department of Health and Human Services. During fiscal year 1990-91, the department awarded approximately $9.8 million of federal funds to subrecipients. It subgrants federal funds to 11 area agencies on aging to provide a variety of services and benefits to the elderly. It also subgrants federal moneys to other nonprofit organizations for a variety of programs.

OMB Circular A-128 requires a state or local government that receives federal financial assistance and provides $25,000 or more in a fiscal year to a subrecipient must ensure the subrecipient(s) meets certain requirements. One such requirement is to determine whether state or local subrecipients have met the audit requirements of OMB Circular A-128 (Audits of State and Local Governments) and whether nonprofit subrecipients have met the audit requirements of OMB Circular A-133 (Audits of Institutions of Higher Education and Other Nonprofit Institutions).

During our audit, we noted the department does not require subrecipients to have an audit in accordance with OMB Circular A-128 or A-133, whichever is applicable. Internal auditors at the department review audit reports of 6 of the 11 area agencies, since the 6 area agencies have independent audits performed. For those subrecipients which do not have independent audits, the department performs a review of the federal funding received by the agency under its contracts and issues a report. However, the reviews do not meet Government Auditing Standards since the audit staff has not met the continuing education requirements and an external quality control review has not been performed of the audit unit's operations. In addition, the reports do not meet the requirements set forth in OMB Circular A-128. Federal regulations require the report issued to state the audit was made in accordance with the provisions of this circular and the report contains the auditor's reports on the financial statements and schedule of federal financial assistance; the study and evaluation of the subrecipient's internal control system; and the subrecipient's compliance with applicable laws and regulations.

A set of financial statements and a schedule of federal financial assistance should also be included in the report.

The department should ensure subrecipients have audits completed which comply with OMB Circular A-128 or A-133, whichever is applicable. The department should also establish a system to monitor the subrecipients' compliance with applicable requirements.

Recommendation #17

We recommend the department:

A. Ensure subrecipients have audits completed which comply with federal requirements.

B. Establish a system to monitor subrecipients' compliance with applicable requirements.

Unreported Income

The department provides a meal to all employees of MVS and PHS who work an eight-hour shift. The department also provides housing for a maintenance employee at MVS. The meals and housing are provided at no cost to the employees and the value is not reported as income to the employees on the Internal Revenue Service (IRS) Form W-2.

According to IRS regulations, the value of meals provided by the employer at no charge to the employee is taxable income unless it is furnished on the premises of the employer and furnished for the convenience of the employer. Furthermore, the IRS regulations state the value of lodging provided by the employer at no charge to the employee is taxable income unless it is furnished on the business premises of the employer, furnished for the convenience of the employer, and the employee is required to accept the lodging as a condition of their employment.

Because employees are not required by written policy to eat on the premises and the maintenance employee is not required by written policy to live on the school grounds, the meals and lodging are not furnished for the convenience of the employer. As such, both the meals and housing are taxable income to the employee. We estimated the value of the meals to these employees was approximately $15,858 per fiscal year. According to department personnel, there is no value of the housing because of its poor condition.

IRS regulations require employers to report all taxable income including the value of taxable meals and lodging to employees, on the employee's W-2. Department personnel indicated the free meal is provided for in the employee's union contract. The housing is provided since the employee is "on call." The department should implement procedures to ensure all taxable income provided to employees is reported.

Recommendation #18

We recommend the department report all taxable income provided to employees on Form W-2 in accordance with federal regulations.

Federal Financial Reports

The federal government requires state agencies to periodically report the financial status of grants received by the state. Federal regulations require the recipient's accounting procedures be sufficient to permit preparation of reports, the recipient of the grants ensure the financial status reports contain reliable financial data, and the recipient file the final report within 90 days from the end of the grant period. In the previous audit report, we recommended the department ensure amounts on the federal financial reports reconcile to the state's accounting records. The department concurred with the recommendation. We reviewed the federal fiscal year 1989-90 aging report (CFDA

#13.633, #13.635, and #13.668) submitted by the department to the federal government and noted the following problems.

-- The department did not agree the report to SBAS prior to submission to the federal agency. As of December 1991, the department had not reconciled the federal fiscal year 1989-90 report to SBAS. Department personnel stated they have not had time to reconcile the report to SBAS.

-- The department did not update the spreadsheet used in preparing the report for final expenditures. Department personnel stated two individuals are involved in preparing the report. One individual had not updated the computer spreadsheet prior to the other preparing the report.

-- The department did not submit the final financial status report until May of 1991, approximately 150 days after it was due. According to department personnel, they were busy with other job assignments and did not file the report. In addition, they stated final invoices from the area agencies may not have been received in a timely manner.

We also reviewed the Foster Care Title IV-E (CFDA #13.658) report submitted by the department for federal fiscal year 1989-90. The department used a higher daily rate to pay foster care providers than was allowed by the federal government for the first quarter of state fiscal year 1990-91; therefore, the department needed to adjust the federal expenditures reported for federal fiscal year 1989-90. The department included an adjustment in the federal report for the months of July and August 1990; however, it had not made a $13,095 adjustment for September 1990 as of January 1992. Department personnel were not aware an additional adjustment was required since the individual responsible was no longer with the department.

Since federal regulations require financial reports submitted be complete and accurate and SBAS has been designated as the state's accounting system, the department should ensure the amounts reported to the federal government are reconciled to SBAS. In addition, the department should establish adequate procedures to ensure it complies with the specific grant reporting requirements and the federal filing deadlines.

Recommendation #19

We recommend the department:

A. Ensure amounts reported on the federal financial reports are complete, accurate, and reconcile to the state's accounting records.

B. Establish procedures to meet federal filing deadlines.

C. Submit an amended Foster Care Title IV-E financial report to adjust $13,095 of expenditures improperly reported on the federal fiscal year 1989-90 report.

Contract Requirements

The department subgranted with approximately 31 organizations in fiscal year 1989-90 and 24 in fiscal year 1990-91 to carry out federal projects related to child abuse and neglect (CFDA #13.669). Federal regulations prohibit the use of federal moneys for partisan political activity. Federal regulations also state that no person shall be excluded from participation in or be subjected to discrimination in any program funded by federal funds based on race, color, age, handicap or national origin. For subgrantees awarded child abuse and neglect funds, the department does not include in its contracts with subgrantees a requirement that the subgrantees comply with these regulations. According to department personnel, they include these requirements in its contracts with most subgrantees. However, they use a separate contract, with these requirements omitted, for smaller child abuse and neglect contracts. The department could include language that prohibits use of federal funds for political activity and require compliance with the Civil Rights Act in its contract with subgrantees.

Recommendation #20

We recommend the department include language that prohibits use of federal funds for political activity and require compliance with the Civil Rights Act in its contracts with subgrantees.

Drug-Free Workplace

The Drug-Free Workplace Act requires agencies receiving grants from any federal agency to certify it will provide a drug-free workplace. The grantee's certification requires publishing a statement notifying employees that the unlawful manufacture, distribution, dispensing, possession or use of a controlled substance is prohibited in the grantee's workplace and specifying the actions that will be taken against employees for violating the regulation.

The department issued a memorandum to each employee informing them of the requirements. It required the employee to sign and date the memorandum to indicate the employee had been provided the information. This memorandum is included in the employee's personnel file. Out of 29 personnel files reviewed, we found 15 files did not contain the signed memorandum. According to department personnel, the department sent second notices to employees who had not returned their memorandums. However, they indicated they did not have time to perform further follow-up.

Recommendation #21

We recommend the department enforce its policy requiring employees to sign the memorandum to indicate the employee had been provided information about the Drug-Free Workplace Act.

Management Controls

Primary functions of management include organizing, directing, and controlling the activities of an entity in order to accomplish the objectives of the entity. The methods management adopts to carry out these functions constitute the management control system. In the prior audit report, we discussed areas where management could improve its direction and control of staff activities. The department concurred with all seventeen recommendations contained in the prior audit report; however, we noted the department partially implemented two and fully implemented only four of those recommendations. In our current report we again believe the preceding 21 report sections are areas where management needs to implement and monitor procedures and policies to address concerns noted.

During the past four years, five directors have been appointed to the department. Department officials cited the turnover in management as part of the reason why many of the prior audit recommendations were not implemented. Many of the problems we noted occurred due to department personnel not receiving adequate training regarding laws and accounting policies; key accounting personnel not providing adequate supervision and guidance to employees and not thoroughly reviewing transactions recorded on the state's accounting records; and breakdown in communication within the department. We believe the issues discussed in this report relate to establishing systems and adequate procedures and should be addressed by different levels within the department's organization.

The recommendations made in the preceding report sections would, if implemented, improve department operations and compliance with state and federal laws and policies. In addition to these recommendations, we noted a need for management's increased awareness and knowledge of state and federal laws and policies and employee's work in order to ensure management controls are adequate. Some additional steps management should consider to improve operations include:

1. Providing adequate training to its employees.
2. Providing more supervision and review of its employees' work.

3. Improving communications between personnel within the department.

Many of the examples mentioned in this report indicate the department did not have systems in place to prevent or detect errors. As the department addresses the recommendations in this report, it should not only review and correct the specific items mentioned, but it should also establish and monitor systems to minimize future errors.

Recommendation #22

We recommend the department:

A. Provide training to personnel at all levels to enhance compliance with state and federal laws and policies.

B. Adequately supervise and review department personnel's work to ensure errors are minimized and detected in a timely manner.

C. Improve communications between personnel within the department.

Independent Auditor's Report & Agency Financial Schedules

Summary of Independent Auditor's Report

Summary of Independent Auditor's Report

The financial schedules are prepared from the Statewide Budgeting and Accounting System without adjustments for errors noted during the audit. The auditor's opinion issued in this report is intended to convey to the reader of the financial schedules the degree of reliance which can be placed on the amounts presented.

We included paragraph six in the Independent Auditor's Report to disclaim our opinion on the Mountain View School Schedule of Additions and Deductions to Agency Fund Property Held in Trust because the school could not determine actual fiscal year 1989-90 additions and deletions. The reader should not rely on the financial information in this schedule.

We included paragraph seven in the Independent Auditor's Report to qualify our opinion on the Schedule of Budgeted Revenue and Transfers In - Estimate and Actual because the department did not properly recognize revenue at fiscal year-end 1990-91. The reader should use caution when using the financial information in this schedule.

The unqualified opinion on the remaining schedules indicates the schedules are fairly stated in all material respects and the user can rely on the information presented.

STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122

LEGISLATIVE AUDITOR:
SCOTT A. SEACAT

LEGAL COUNSEL:
JOHN W. NORTHEY

DEPUTY LEGISLATIVE AUDITORS:

MARY BRYSON
Operations and EDP Audit

JAMES GILLETT
Financial-Compliance Audit

JIM PELLEGRINI
Performance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying financial schedules of the Department of Family Services, for each of the two years ended June 30, 1990 and 1991, as shown on pages 47 through 56. The information contained in these schedules is the responsibility of the department's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

Except as explained in paragraph four, we conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than generally accepted accounting principles. The schedules are not intended to be a complete presentation and disclosure of the department's assets and liabilities.

The department could not separate actual fiscal year 1989-90 additions and deletions from corrections made on the Mountain View School resident account system. As a result, we are unable to determine the reasonableness of amounts reported as additions and deductions for property held in trust.

The department did not properly recognize revenue at fiscal year-end 1990-91. As a result, revenue and ending fund balance are understated and deferred revenue is overstated in the Special Revenue Fund by $1,850,714.

Because of the matter discussed in paragraph four, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the Schedule of Additions and Deductions to Agency Fund Property Held in Trust for

Mountain View School Resident Trust Accounts, for the two fiscal years ended June 30, 1991.

In our opinion, except for the effects of the matter discussed in paragraph five, the Schedule of Changes in Fund Balances, Schedule of Budgeted Revenue and Transfers In - Estimate and Actual, the Schedules of Budgeted Program Expenditures By Object and Fund - Budget and Actual, the Schedule of Additions and Deductions to Agency Fund Property Held in Trust for the Children's Trust Accounts and the Schedule of Additions and Deductions to Agency Fund Property Held in Trust for Pine Hills School Resident Trust Accounts present fairly the results of operations and the changes in fund balances of the Department of Family Services, for the two fiscal years ended June 30, 1991, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

James Gillett

James Gillett, CPA
Deputy Legislative Auditor

January 10, 1992

DEPARTMENT OF FAMILY SERVICES
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1991

	General Fund	Special Revenue Funds
FUND BALANCE: July 1, 1989	$ 0	$ 2,003,768
ADDITIONS		
Fiscal Year 1989-90		
Budgeted Revenue & Transfers In	97,776	12,338,462
Nonbudgeted Revenue & Transfers In	509	
Support From State of Montana	21,923,518	
Cash Transfers In		98,613
Prior Year Transfer-In Adjustments		27,815
Fiscal Year 1990-91		
Budgeted Revenue & Transfers In	101,941	13,565,204
Nonbudgeted Revenue & Transfers In	376	(35,157)
Prior Year Expenditure Adjustments	133,571	592
Support From State of Montana	23,910,764	
Cash Transfers In		70,658
Prior Year Revenue Adjustments		755,351
Total Additions	46,168,455	26,821,538
REDUCTIONS		
Fiscal Year 1989-90		
Budgeted Expenditures & Transfers Out	22,010,523	12,472,529
Prior Year Expenditure Adjustments	23,114	581,371
Prior Year Transfer-Out Adjustments	(749)	
Prior Year Revenue Adjustments	(100)	809,804
Direct Entries to Fund Balance	(10,985)	10,624
Fiscal Year 1990-91		
Budgeted Expenditures & Transfers Out	24,127,114	13,693,190
Prior Year Expenditures	(3,178)	
Direct Entries to Fund Balance	22,716	(9,324)
Total Reductions	46,168,455	27,558,194
FUND BALANCE: June 30, 1991	$ 0	$ 1,267,112

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 54 through 56.

Fiscal Year 1990-91
GENERAL FUND
Estimated Revenue
Actual Revenue
Collections Over
(Under) Estimate

SPECIAL REVENUE FUND
Estimated Revenue
Actual Revenue
Collections Over
(Under) Estimate

Fiscal Year 1989-90
GENERAL FUND
Estimated Revenue
Actual Revenue
Collections Over
(Under) Estimate

SPECIAL REVENUE FUNI
Estimated Revenue
Actual Revenue
Collections Over
(Under) Estimate

This schedule is pr

DEPARTMENT OF FAMILY SERVICES
SCHEDULE OF BUDGETED REVENUE AND TRANSFERS IN - ESTIMATE AND ACTUAL
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1991

	Licenses and Permits	Charges For Services	Investment Earnings	Rentals, Leases & Royalties	Miscellaneous	Fines & Forfeits	Sale of Documents, Merchandise & Property	Grants, Contracts, Donations & Abandonments	Other Financing Sources	Federal	Total
Fiscal Year 1990-91											
GENERAL FUND											
Estimated Revenue	$135,000	$ 100	$ 30	$2,400	$ 300						$ 137,830
Actual Revenue	99,210	216	30	2,400	85						101,941
Collections Over (Under) Estimate	$(35,790)	$ 116	$ 0	$ 0	$ (215)						$ (35,889)
SPECIAL REVENUE FUND											
Estimated Revenue		$2,061,609	$ 2,800		$ 28,000	$ 20,000	$23,000	$ 31,852	$423,550	$10,459,174	$13,049,985
Actual Revenue		1,930,229	865		24,835	1,376	17,451	8,103	369,427	11,212,918	13,565,204
Collections Over (Under) Estimate		$ (131,380)	$(1,935)		$ (3,165)	$(18,624)	$(5,549)	$(23,749)	$(54,123)	$ 753,744	$ 515,219
Fiscal Year 1989-90											
GENERAL FUND											
Estimated Revenue	$135,000	$ 50	$ 36	$2,400							$ 137,486
Actual Revenue	95,030	110	36	2,600							97,776
Collections Over (Under) Estimate	$(39,970)	$ 60	$ 0	$ 200							$ (39,710)
SPECIAL REVENUE FUND											
Estimated Revenue		$2,095,000	$ 2,800		$ 53,000	$ 20,000	$23,000	$11,863	$340,000	$10,485,796	$13,031,459
Actual Revenue		1,909,341	498		24,461	4,226	24,366	9,322	353,685	10,012,563	12,338,462
Collections Over (Under) Estimate		$ (185,659)	$(2,302)		$(28,539)	$(15,774)	$ 1,366	$(2,541)	$ 13,685	$ (473,233)	$ (692,997)

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 54 through 56.

DEPARTMENT OF FAMILY SERVICES
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES BY OBJECT AND FUND
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1991

	Management Support	Community Services	Mountain View	Pine Hills	Total
PERSONAL SERVICES					
Salaries	$1,101,950	$ 6,950,920	$1,317,230	$2,407,509	$11,777,609
Hourly Wages	735	131	19,133		19,999
Employee Benefits	241,739	1,660,426	363,063	644,476	2,909,704
Total	1,344,424	8,611,477	1,699,426	3,051,985	14,707,312
OPERATING EXPENSES					
Other Services	456,285	129,655	83,300	183,310	852,550
Supplies & Materials	42,110	82,020	121,047	235,841	481,018
Communications	81,834	229,482	23,752	43,116	378,184
Travel	149,013	474,469	6,158	13,281	642,921
Rent	67,732	336,409	4,296	6,013	414,450
Utilities	1,569	11,906	54,389	163,072	230,936
Repair & Maintenance	3,763	20,255	19,951	56,671	100,640
Other Expenses	27,578	28,862	13,617	14,767	84,824
Goods Purchased For Resale			1,540	15,597	17,137
Total	829,884	1,313,058	328,050	731,668	3,202,660
EQUIPMENT AND INTANGIBLE ASSETS					
Equipment	13,907	59,060	14,343	7,623	94,933
Intangible Assets			1,099		1,099
Total	13,907	59,060	15,442	7,623	96,032
GRANTS					
From State Sources		912,208			912,208
From Federal Sources		4,711,741			4,711,741
Total		5,623,949			5,623,949
BENEFITS & CLAIMS					
To Individuals		14,112,850			14,112,850
From Federal Sources		77,501			77,501
Total		14,190,351			14,190,351
TOTAL PROGRAM EXPENDITURES	$2,188,215	$29,797,895	$2,042,918	$3,791,276	$37,820,304
GENERAL FUND					
Budgeted	$1,547,332	$17,853,795	$1,931,891	$3,266,988	$24,600,006
Actual	1,518,001	17,464,881	1,878,310	3,265,922	24,127,114
Unspent Budget Authority	$ 29,331	$ 388,914	$ 53,581	$ 1,066	$ 472,892
SPECIAL REVENUE FUND					
Budgeted	$ 782,316	$12,612,010	$ 167,435	$ 596,112	$14,157,873
Actual	670,214	12,333,014	164,608	525,354	13,693,190
Unspent Budget Authority	$ 112,102	$ 278,996	$ 2,827	$ 70,758	$ 464,683

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 54 through 56.

DEPARTMENT OF FAMILY SERVICES
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES BY OBJECT AND FUND
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1990

	Management Support	Community Services	Mountain View	Pine Hills	Total
PERSONAL SERVICES					
Salaries	$1,028,662	$ 6,725,647	$1,236,894	$2,309,007	$11,300,210
Hourly Wages			14,013	1,665	15,678
Employee Benefits	216,346	1,538,900	328,302	593,566	2,677,114
Total	1,245,008	8,264,547	1,579,209	2,904,238	13,993,002
OPERATING EXPENSES					
Other Services	416,987	69,853	72,604	161,252	720,696
Supplies & Materials	27,469	92,753	132,911	254,342	507,475
Communications	77,373	212,103	22,833	43,400	355,709
Travel	111,647	502,806	5,122	10,301	629,876
Rent	95,511	329,699	2,940	7,064	435,214
Utilities		10,220	49,371	154,475	214,066
Repair & Maintenance	7,956	12,879	14,433	38,036	73,304
Other Expenses	38,870	24,144	12,785	16,687	92,486
Goods Purchased For Resale			1,467	19,938	21,405
Total	775,813	1,254,457	314,466	705,495	3,050,231
EQUIPMENT AND INTANGIBLE ASSETS					
Equipment	5,091	13,624	5,355	15,741	39,811
Intangible Assets	3,204		685		3,889
Total	8,295	13,624	6,040	15,741	43,700
GRANTS					
From State Sources		942,292			942,292
From Federal Sources		4,240,598			4,240,598
Total		5,182,890			5,182,890
BENEFITS & CLAIMS					
To Individuals		12,167,007			12,167,007
From Federal Sources		46,222			46,222
Total		12,213,229			12,213,229
TOTAL PROGRAM EXPENDITURES	$2,029,116	$26,928,747	$1,899,715	$3,625,474	$34,483,052
GENERAL FUND					
Budgeted	$1,600,840	$16,060,139	$1,895,170	$3,131,627	$22,687,776
Actual	1,520,326	15,669,138	1,787,632	3,033,427	22,010,523
Unspent Budget Authority	$ 80,514	$ 391,001	$ 107,538	$ 98,200	$ 677,253
SPECIAL REVENUE FUND					
Budgeted	$ 627,687	$11,982,368	$ 124,794	$ 635,492	$13,370,341
Actual	508,790	11,259,609	112,083	592,047	12,472,529
Unspent Budget Authority	$ 118,897	$ 722,759	$ 12,711	$ 43,445	$ 897,812

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 54 through 56.

DEPARTMENT OF FAMILY SERVICES
CHILDREN'S TRUST ACCOUNTS
SCHEDULE OF ADDITIONS AND DEDUCTIONS TO AGENCY FUND PROPERTY HELD IN TRUST
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1991

Property Held in Trust, July 1, 1989	$ 209,115
Additions:	
Fiscal Year 1989-90	837,834
Fiscal Year 1990-91	944,293
Total Additions	1,782,127
Deductions:	
Fiscal Year 1989-90	827,240
Fiscal Year 1990-91	897,380
Total Deductions	1,724,620
Property Held in Trust, June 30, 1991	$ 266,622

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 54 through 56.

DEPARTMENT OF FAMILY SERVICES
PINE HILLS SCHOOL RESIDENT TRUST ACCOUNTS
SCHEDULE OF ADDITIONS AND DEDUCTIONS
TO AGENCY FUND PROPERTY HELD IN TRUST
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1991

Property Held in Trust, July 1, 1989	$ 47,659
Additions:	
Fiscal Year 1989-90	85,190
Fiscal Year 1990-91	66,903
Total Additions	152,093
Deductions:	
Fiscal Year 1989-90	118,762
Fiscal Year 1990-91	73,941
Total Deductions	192,703
Property Held in Trust, June 30, 1991	$ 7,049

The transaction detail for activity in the Agency Fund is not recorded on the Statewide Budgeting and Accounting System (SBAS); therefore, the totals for additions and deductions were compiled from subsidiary records. Additional information is provided in the notes to the financial schedules on pages 54 through 56.

DEPARTMENT OF FAMILY SERVICES
MOUNTAIN VIEW SCHOOL RESIDENT TRUST ACCOUNTS
SCHEDULE OF ADDITIONS AND DEDUCTIONS
TO AGENCY FUND PROPERTY HELD IN TRUST
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1991

Property Held in Trust, July 1, 1989	$11,367
Additions:	
Fiscal Year 1989-90	21,151
Fiscal Year 1990-91	42,683
Total Additions	63,834
Deductions:	
Fiscal Year 1989-90	11,252
Fiscal Year 1990-91	49,984
Total Deductions	61,236
Property Held in Trust, June 30, 1991	$13,965

The transaction detail for activity in the Agency Fund is not recorded on the Statewide Budgeting and Accounting System (SBAS); therefore, the totals for additions and deductions were compiled from subsidiary records. Additional information is provided in the notes to the financial schedules on pages 54 through 56.

1. Summary of Significant Accounting Policies

Basis of Accounting

The Department of Family Services uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental and Agency Funds. In applying the modified accrual basis, the department records:

> Revenues when it receives cash or when receipts are measurable and available to pay current period liabilities.
>
> Expenditures for valid obligations when the department incurs the related liability and it is measurable.

Expenditures may include entire budgeted service contracts, even though the department received the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

State accounting policy also requires the department to record the cost of employees' annual leave and sick leave when used or paid.

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the Statewide Budgeting and Accounting System without adjustment. Accounts are organized in funds according to state law. The department uses the following funds:

Governmental Funds

<u>General</u> - accounts for all financial resources except those required to be accounted for in another fund.

<u>Special Revenue</u> - to account for the proceeds of specific revenue sources legally restricted to expenditures for specific purposes. Department Special Revenue Funds include federal assistance, county foster care assistance and canteen activity.

Legislative appropriations are required to spend from these funds.

Fiduciary Funds

Trust and Agency Funds - to account for assets held by the state in a trustee capacity or as an agent for individuals, private organizations, other governments or other funds. Department fiduciary funds include the children trust and resident accounts. A legislative appropriation is not required to spend these funds.

2. Annual and Sick Leave

Employees at the department accumulate both annual and sick leave. The department pays employees for 100 percent of unused annual and 25 percent of unused sick leave credits upon termination. Accumulated unpaid liabilities for annual and sick leave are not reflected in accompanying financial schedules. The department absorbs expenditures for termination pay in its annual operational costs. At June 30, 1991, the department had a liability of $1,495,262 for annual and sick leave.

3. Pension Plan

Employees are covered by the Montana Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS). The department's contribution to these plans was $727,906 in fiscal year 1989-90 and $761,341 in fiscal year 1990-91.

4. General Fund Balance

The General Fund is a statewide fund. Agencies do not have a separate General Fund since their only authority is to pay obligations from the statewide General Fund within their appropriation limits. Thus, on an agency's schedules, the General Fund beginning and ending fund balance will always be zero.

5. Litigation

The Montana Federation of State Employees filed a claim on behalf of state employees from various state agencies regarding compensatory time payment for overtime worked by the employees. This lawsuit name several department employees as plaintiffs. The Department of Administration is handling the lawsuit for all agencies named as defendants. The department

has determined its liability would be approximately $700,000 for all its nonexempt employees should the state lose in this suit.

The U.S. Department of Justice is investigating allegations concerning both PHS and MVS. According to department officials, the investigators did not inform them as to the nature of the allegations, however, the investigators have reviewed areas such as sanitation, preparation of food, and inappropriate placement of children. Department personnel indicated it would be speculation to estimate the potential financial impact to the state since the issue is under investigation.

Agency Response

DEPARTMENT OF FAMILY SERVICES

STAN STEPHENS, GOVERNOR

(406) 444-5900
FAX (406) 444-5956

STATE OF MONTANA

TOM L. OLSEN, DIRECTOR
JESSE MUNRO, DEPUTY DIRECTOR

P.O. BOX 8005
HELENA, MONTANA 59604

April 1, 1992

APR - 2

Mr. Scott A. Seacat, Legislative Auditor
Office of the Legislative Auditor
State Capitol
Helena, MT 59620

Dear Mr. Seacat:

Enclosed is the Department's response to the Financial and Compliance Audit that was performed for fiscal years ending June 30, 1990 and 1991 for the Department of Family Services.

It is important to the department to comply with the recommendations and strengthen internal controls to ensure the accuracy and safeguarding of the department's assets.

We extend our appreciation to your staff for the courtesy and professionalism demonstrated.

Department staff will be available to discuss the audit recommendations at the Legislative Audit Committee meeting.

Sincerely,

Tom Olsen
Director

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"AN EQUAL OPPORTUNITY EMPLOYER"

Recommendation #1: **We recommend the department establish procedures to insure adequate written support documentation exists for all accounting transactions processed.**

Agency Response: The department concurs and is implementing: A written policy will be developed and implemented by June 30, 1992, to produce proper written documentation for accounting transactions to ensure the reasonableness and accuracy of each transaction.

Recommendation #2: **We recommend the department review the daily transaction listing to ensure information recorded on SBAS is authorized, accurate and complete.**

Agency Response: The department concurs and has implemented: Currently, daily transaction reports are mailed to both Pine Hills School and Mountain View School for their review and reconciliation. The Central Office has implemented the process of reviewing and reconciling on a daily basis the daily transaction report and the document log. Discrepancies are evaluated and reconciled.

Recommendation #3: **We recommend the department establish control procedures to ensure appropriate department equipment is tagged for identification and properly recorded on the state's property accounting records.**

Agency Response: The department concurs and is implementing: The department has assigned a position as property manager and will verify that equipment is properly classified on PAMS. A target date of September 30, 1992, has been established for completion of the project.

Recommendation #4: **We recommend the department adequately segregate duties of personnel responsible for payroll processing, residents account activity and canteen inventory.**

Agency Response: The department concurs and is implementing: The department is in the process of reviewing the responsibilities for each of the positions in question. An evaluation of responsibilities and a reassignment of duties to ensure segregation of duties will be completed by June 30, 1992, by the institutions. An on-site review will be completed by Central Office by September 30, 1992, to verify that the proper procedures are followed.

Recommendation #5: **We recommend the department establish procedures to properly record expenditures in the proper fund.**

Agency Response: The department concurs and is implementing: The department is reviewing the methods in which cash draws are completed and the transfer of expenditures to the proper funding sources. With the implementation of Cash Management, a new system will be implemented by June 30, 1992, to ensure the state and federal requirements are adhered with when requesting a cash draw and transferring funds.

Recommendation #6: **We recommend the department establish procedures to record its financial activity on SBAS in accordance with state accounting laws and policies.**

Agency Response: The department concurs: The department is reviewing the procedure used for year end cut off to ensure that general accepted accounting principles are applied consistently. A position is being developed and classified for the fiscal unit to assist with the review in the areas of coding of expenditures, review accruals and proper classification of expenditures. In addition this position will assist in the communication area. An evaluation of training needs will be completed by June 30, 1992.

Recommendation #7: **We recommend the department:**

A. Record approved operating budgets on the state's accounting records in accordance with state law.

B. Monitor program expenditure activity and submit operating budget amendments to ensure compliance with appropriation law.

Agency Response: The department concurs: The department is implementing a new procedure which will outline the appropriation authority by second level for the base budget as well as additional authority that is gained from budget amendments. This information will be allocated to SBAS and reviewed on a monthly basis to determine if all budget authority is reflected on SBAS and expenditures comply with state law. A completion date of June 30, 1992, has been established.

Recommendation #8: **We recommend the department comply with state policy concerning payment for compensatory time.**

Agency Response: The department does not concur: It is the department's contention that it cannot comply with this recommendation and still meet the requirements of the Fair Labor Standards Act. However, the department has established a new compensatory time policy which should help to eliminate this type of issue in the future.

The department is initiating procedures to properly record the payment on SBAS, if and when the payment for this reconstruction is received. At the time payment is received, restitution will be made to the employee.

Recommendation #9: **We recommend the department implement a system to ensure teachers are paid for holidays and annual leave in compliance with state law and policy.**

Agency Response: The department concurs and has implemented: Based on a newly negotiated contract, the department is complying with state regulations for state employees. The new contract is currently in effect.

Recommendation #10: **We recommend the department:**

A. Ensure contributions to the Teachers' Retirement System are made in compliance with state law and policy.

B. Work with the summer school teachers and the Teachers' Retirement System to resolve unpaid contributions.

Agency Response: The department concurs and is implementing: The department has implemented a policy to ensure that the eligible teachers are enrolled with the Teachers' Retirement System (TRS) in accordance with state law and policy. The department is working with TRS personnel to resolve the unpaid contributions. This problem should be corrected by June 30, 1992.

Recommendation #11: **We recommend the department:**

A. Obtain written federal authorization for indirect cost rates applied to federal programs.

B. Recover indirect costs to the fullest extent possible in accordance with state law.

Agency Response: The department concurs and is implementing: The department is in the process of amending the indirect cost recovery rates. The request will be submitted by June 30, 1992, with a request to apply the rate retroactively for fiscal year 1992.

An indirect cost rate for each institution has been approved for fiscal years 1992, 1993 and 1994. The department is in the process of amending the fiscal year 1992 grant to include the indirect cost rate.

To maximize the indirect cost recovery, a rate was approved for fiscal 1993 and the department will submit a grant amendment for fiscal 1992, before June 30, 1992.

Recommendation #12: **We recommend the department establish policies and procedures to ensure travel reimbursements comply with state laws.**

Agency Response: The department concurs and has implemented: The department has completed training throughout the regions on the state policy and procedures for travel claims. The department will implement a review procedure which will include a periodic review of travel claims at Central Office to ensure the supervisors are complying with the appropriate state laws.

Recommendation #13: **We recommend the department:**

A. Establish procedures to ensure non-treasury cash accounts authorized and used in accordance with state law and policy.

B. Ensure deposits are made intact in accordance with state policy.

C. Revert interest earned on the savings account of the General Fund in accordance with state law.

Agency Response: The department concurs and has implemented: The department is in the process of evaluating non-treasury cash accounts held at field offices to ensure authorization and use in accordance with state law and policy. A reconciliation will be performed.

The department is in the process of implementing a new procedure to ensure deposits are made intact and all interest earned is reverted to the General Fund in accordance with state law. These items will be reviewed by June 30, 1992.

Pine Hills School has eliminated the change fund for the basketball games and has implemented a procedure to ensure authorization of any non-treasury cash accounts should the need arise in the future.

Recommendation #14: **We recommend the department ensure youth placements are properly supported in accordance with state law.**

Agency Response: The department concurs: The department is issuing a department policy memo as to the required type of document to support a youth placement. The memo will be issued by June 30, 1992.

Recommendation #15: **We recommend the department comply with state law and department policy regarding annual subsidized adoption agreements.**

Agency Response: The department concurs and has implemented: The department implemented a procedure to ensure an agreement between the adoptive parent and the department to be renewed annually, as required by state law. The procedure will be completed by April, 1992. After the first notification in April, annual recertification will be mailed each January starting in 1993.

Recommendation #16: **We recommend the department establish adequate procedures to ensure foster care payments are made on behalf of eligible clients in accordance with federal regulations.**

Agency Response: The department concurs and is implementing: Under the current system, the Department of Social and Rehabilitative Services (SRS) maintains the responsibility for the financial eligibility determination and redetermination of foster care. SRS has implemented a software called The Economic Assistance Management System (TEAMS) to assist with their responsibility. The department has requested a modification of TEAMS to include the IV-E eligibility issues. The department will coordinate the interface with TEAMS and the department's new system, Management Information System (MIS). The completion date is scheduled for January 1994.

In the interim, to help in resolving this issue until the new system is developed, the department is performing policy training and will hire a new staff member to assist in federal eligibility requirements. The new staff member should be hired in May after the completion of position classification.

Recommendation #17: **We recommend the department:**

A. Ensure subrecipients have audits completed which comply with federal requirements.

B. Establish a system to monitor sub-recipients' compliance with applicable requirements.

Agency Response: The department concurs and has implemented: The department has developed an attachment for new contracts which addresses audit requirements. The attachment requires sub-recipients to complete an audit in compliance with the applicable OMB Circular A-128 or A-133. A separate attachment was sent to existing contracts informing the sub-recipients of the audit requirements under OMB Circular A-128 or A-133.

The department is developing a procedure to monitor a sub-recipients' compliance with applicable requirements.

Recommendation #18: **We recommend the department report all taxable income provided to employees on Form W-2 in accordance with federal regulations.**

Agency Response: The department concurs: The department is in the process of developing a consistent policy on determining free or taxable meals for employees. This policy will assist in properly recording and reporting all non-salary income.

The living quarter is no longer provided, and therefore is not an issue.

Recommendation #19: **We recommend the department:**

A. Ensure amounts reported on the federal financial reports are complete, accurate, and reconcile to the state's accounting records.

B. Establish procedures to meet federal filing deadlines.

C. Submit an amended Foster Care Title IV-E financial report to adjust $13,095 of expenditures improperly reported on the federal fiscal year 1989-90 report.

Agency Response: The department concurs and is implementing: The department is implementing a procedure to ensure federal reports are complete and accurate and reconciled to SBAS on a timely manner. The department is re-assigning a staff member for an extended period of time to ensure the federal reporting requirements are followed. This procedure will be in effect by June 30, 1992, to ensure fiscal year end procedures are implemented correctly.

An amended foster care report has been submitted to adjust for expenditures that were improperly reported.

Recommendation #20: **We recommend the department include language that prohibits use of federal funds for political activity and require compliance with the civil rights act in its contracts with subgrantees.**

Agency Response: The department concurs and has implemented: The department has incorporated standard boiler plate language in all contracts with sub-grantees. The standard language address the required compliance with the Civil Rights Act and prohibits the use of federal funds for political activity. For existing contracts, attachments were mailed which required a signed copy to be returned to the department.

Recommendation #21: **We recommend the department enforce its policy requiring employees to sign the memorandum to indicate the employee had been provided information about the Drug Free Workplace Act.**

Agency Response: The department concurs and has implemented: The department has implemented a policy for newly hired employees to receive the notification of a drug free work place. The new employee is required to return the document signed within seven days. The department is making time to complete a follow up to ensure the federal regulation is followed and a completed signed form is in each employee file.

Recommendation #22: **We Recommend the department:**

A. Provide training to personnel at all levels to enhance compliance with state and federal laws and policies.

B. Adequately supervise and review department personnel's work to ensure errors are minimized and detected in a timely manner.

C. Improve communications between personnel within the department.

Agency Response: The department concurs and is implementing: The department is in the process of evaluating the staff to determine the need for additional training on a individual basis. The current internal controls the department has in place are being re-evaluated to determine the need for new and stronger controls. The department is taking a active roll in increasing the office communications. With this additional effort on the department's behalf, and the implementation of the audit recommendations it is anticipated that the previous issues will be substantially reduced or eliminated.

The department is striving to comply with the audit recommendations. Of the twenty-two recommendations, the department has completed five, partially completed eight, and has placed into practice seven recommendations. One recommendation may not be complete before January of 1994, and intermediate steps are waiting for a position classification approval.

It is the department's position that twenty-one of the twenty-two recommendations will be implemented by September, 1992. The department would be happy to report to the Legislative Audit Committee at that time on the results of the implementation of these audit recommendations.